

SPECIAL INSTRUCTIONS FOR ANNUITY CONSIDERATIONS

Maine Form INS-4

I. 2003 Tax Law Changes

Maine law continues to impose a premiums tax on annuity considerations. In 2003, Maine amended its premiums tax law to clarify that, in the case of deferred annuity plans, the premiums tax is applied against annuity considerations in the year the purchaser makes payments under the annuity contract that is, Maine requires tax payments on a “front-end” basis. *See* 36 MRSA § 2513.

Section 2513 was also amended, however, to impose “back-end” taxation—i.e., tax on annuity considerations annuitized during the tax year—with respect to payments that had been received in a tax year prior to 1999 and on which premium taxes had not been paid on the front-end. Maine Form INS-4 for 2003 has been revised to include a new line, Line 2a, to report these back-end annuity considerations.

*It is important to note that there is no election between front-end and back-end reporting. A company must pay taxes on premiums at the front-end. In addition, companies must **also** pay tax on a back-end on a limited basis as noted above.*

The following provides special instructions for front-end reporting (line 2), back-end reporting (line 2a), and instructions for allowable direct return premiums related to front-end annuity consideration premiums payments.

II. Front-end Reporting

For front-end reporting, payments by a purchaser of an annuity contract are reported and taxed at the time payments are made, including payments made during the accumulation period for a deferred annuity.

III. Back-end reporting

If front-end premium taxes were not paid for periods prior to January 1, 1999, annuity considerations reported on line 2a must include both the amount paid by the policyholder and the interest credited to the account that accumulated over the years before the policy was annuitized. Any amounts such as charges and/or fees collected by the company may not be deducted in calculating the amount reported on line 2a.

IV. Direct Return Premium Deductions for Funds Returned Prior to Annuitization:

In the case of deferred annuity receipts, deductions for direct return premiums apply only to deferred annuities when premium taxes are paid on the “front-end” basis. Payments refunded to the policyholders that were previously reported by the company as taxable annuity premiums can be deducted on line 3a from the taxable total as returned premiums. However, only the premiums, and not interest, may be deducted. For example, a policyholder purchases a ten-year period policy and pays \$1,000 each year for five years. After the fifth year, the policyholder decides to surrender the policy and the \$5,000 of accumulated premiums plus any interest is refunded. The amount to be reported by the company as returned premiums should only be \$5,000, which is the total of the premiums paid by the policyholder during the five year period prior to surrender.